ALS_CEDL 14/001

ISN'T INDIAN ECONOMY IN RECESSION?

Academic Article

SIDDIK RABIYATH
Research Scholar
Centre for Economic Studies and Planning, Jawaharlal Nehru University

JEL CLASSIFICATION CODE: E01, E17, E32, E37, E44

Centre for Economy Development and Law

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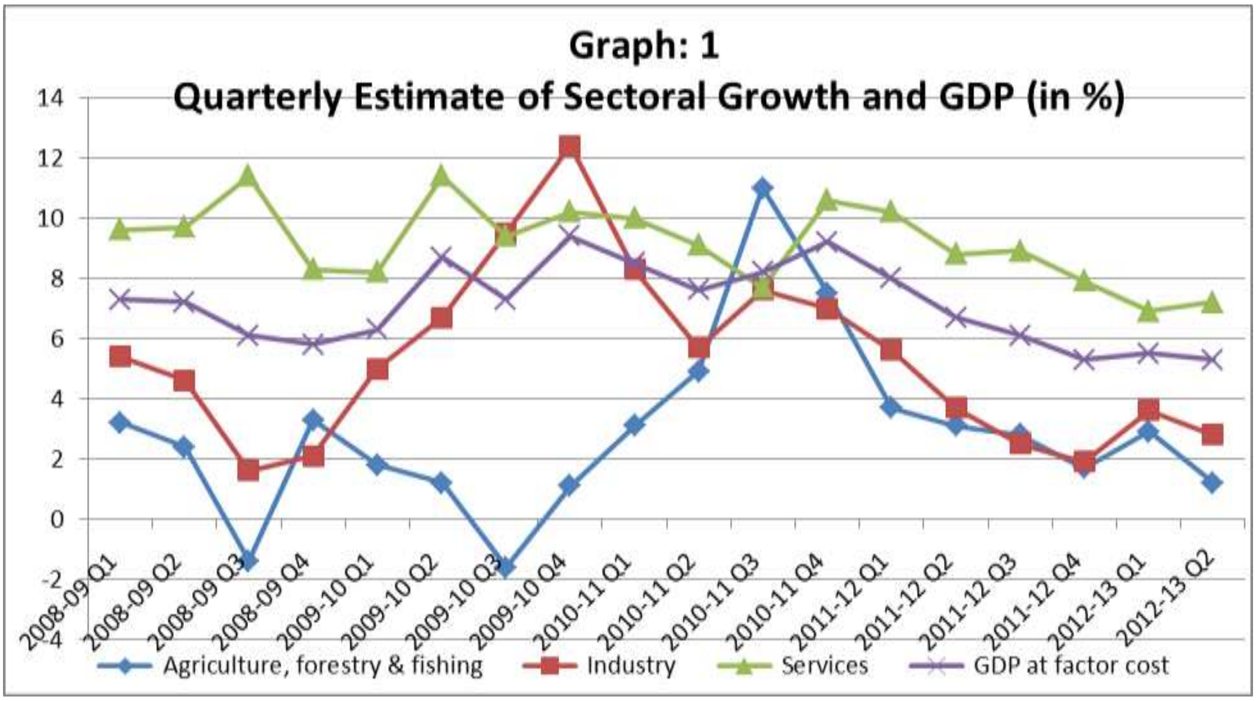
Since the adoption of the neoliberal economic order, the capitalist class gained enormously. As a token of this gain, the growth trajectories of Indian economy put on screen that it had broken the “Hindu” rate of Growth of 3.5%. The GDP growth in the country ever since the adoption of New Economic Policy grew step by step. This gradual climbing of growth trajectory even misled many of the left intellectuals and sold the story of “capitalist crisis ceased”. Alas, many bought. However, the bursting of housing bubble and a crisis henceforth put full stop to the illusion of capitalist economists and its lip servicers. The Indian economic gurus of capital played amnesiac and kept their campaign that the Indian economy is resilient to the world economic crisis. Is this true as the economic growth concerned in India? Let’s look at the sectoral growth pattern and see how realistic the on-going growth stories.

GDP and Sector-Wise Growth in the Post 2008 Crisis

In India, the gross domestic product at factor cost was growing an impressive seven plus rate prior to the financial crisis in 2008. This crisis could otherwise call the housing bubble burst in United States. Since housing and other financial services constitutes the key position in the service sector, the service sector dependent economies are reflected an immediate shock due to the burst. As a result slowly other sectors too came under the process of recession. We can observe from Graph 1 that the reflection of crisis immediately affected the three sectors mercilessly. Especially the industrial sector and agriculture showed a direct dip in the second, third and fourth quarter of 2008-09 and the first quarter in 2009-10, whereas the services sector showed some gain during the first, second and third quarter but fallen prey in the fourth and the following financial year. The strength of the crisis dipped the GDP growth from 7.3 percent in the first quarter of 2008-09 to 5.8 percent in the fourth quarter of the same financial year. This was the contrary to the continuous and fictitious propaganda of capitalism that it is resilient to the shocks and its endemic crisis.

After a constant debate between the heterodox economists such as Prabhath, Utsa, Chandrashekhar with the neoclassical economists like Kaushik, Montek et al, the government and the RBI put up the stimulus package. This intervention gave a new life to boost the economy and result the GDP growth at high of 2010-11. Interestingly the stimulus package had a direct effect in the agricultural and industrial sector, which contributed a gradual coming back of the economy despite the fact that the service sector growth kept declining. This decline of service sector growth can read as the effect of the global economic crisis, which was a crisis more specifically of the service sector across the world. But the propagators of financial capital were quick to withdraw the stimulus package, which turns the economy again under pressure due to its global slowdown of demand. As a result, the growth in industry started declining from the first quarter of 2010-11. Accompanying this, agricultural growth started declining from the third quarter of 2010-11, but service sector took another quarter to start decline despite all the exemptions of corporate and other financial sector income of the government as stimulus. In a nutshell the overall economy started a recession from the first quarter of 2011-12. The last six quarters the economy slipping gradually to a state of recession. This in reality gives no glossy picture of growth, but a pure metrics of acute recession and dipping to depression. Remember the finance ministry's monthly and quarterly report indicates that the GDP at factor cost touched an all-time low of 5.3 percent in the second quarter of 2012-13 since 2008, which is not a myth of sliding to depression.



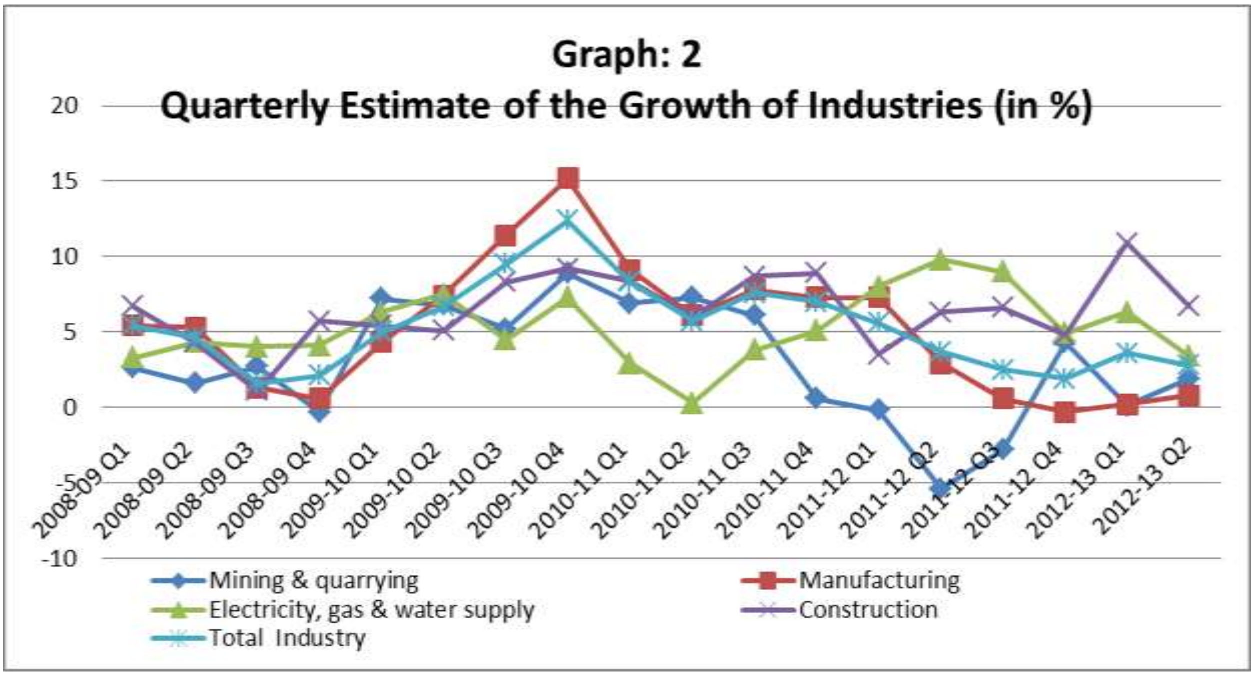
Source: CSO, and Monthly Economic Report of Ministry of Finance

A detailed discussion on the sector and its constituent industries perhaps give more clarity in this. The key sector like industry and services for instance need an attentive analysis because the priority of the neoliberal economic policy and the rhetoric of capital revolve around the growth figures of these sectors. Let's examine the performance of the industrial and services sector constituent industries.

Growth of Industry in the Post Financial Crisis of 2008

The industrial growth is very endemic to the changes in business cycle. The growth of industrial sector fell sharply during and post crisis period. The intensity of this decline can gauged from the dip of growth rate from 5.4 percent in the first quarter of 2008-09 to 1.6 percent in the third quarter of 2008-09. As we noted above, the stimulus slowly brought the growth of production back and took to the high growth of 12.4 percent in the fourth quarter of 2009-10, which is quite impressive. However, the second wave of decline started henceforth and by the fourth quarter of 2011-12 it reached another minimum of 1.9 percent growth. The intensity of constituent industries should examine thereto.

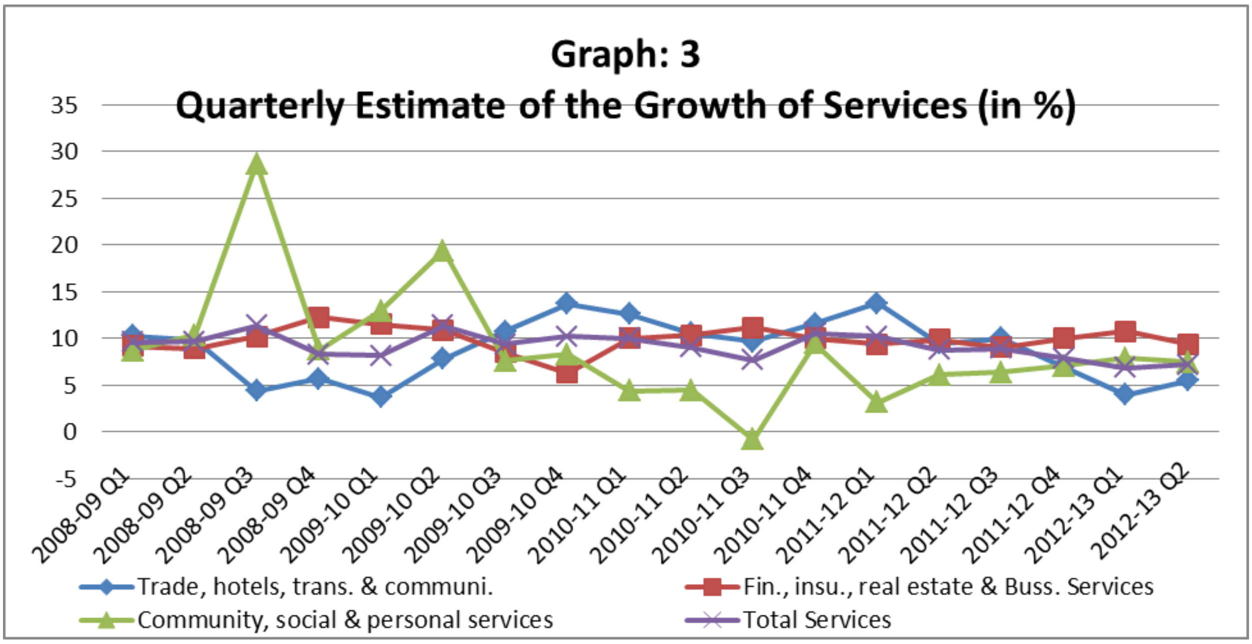
By observing graph 2, mining and quarrying shows the most vulnerable industry. As an immediate effect of the crisis, the growth of mining and quarrying declined and reached a negative growth by fourth quarter of 2008-09. The four quarters in 2008-09 the other industries like manufacturing and construction industries too declined nearly to one percent. Interestingly electricity, gas and water supply was the only industry, which showed a steady growth over the period of first wave of crisis. An explanation of this could be the ratchet effect of consumerism, which necessarily not reduced the household consumption of electricity, gas and water supply as well as the demand in other sectors. The crisis of this sector normally observed to show a lagged effect than other sectors directly prone to the crisis. Even after the stimulus and other aid to the industrial sector the growth of various industries started declining very sharply from the fourth quarter of 2009-10. That is the period 2010 showed a second wave of crisis. During this period the decline registered in all industries including electricity, gas and water supply, which was the resilient industry in 2008 crisis. The effect and depth of the second crisis could observe through the continuous decline of manufacturing, mining and quarrying industries since the first quarters of 2010-11 and reached negative. Despite the effort of reviving the growth of these two industries, achievement of growth in other industries shows no radical change. That is, the positive growth in construction, and electricity, gas and water supply industries alone cannot exhibit a revival in the industrial sector. The reason for this, perhaps the proportion of these industries are smaller than the proportion of mining, quarrying and manufacturing in the total industrial production, which makes us skeptical that there is no sign of resurgence in the immediate future. Hence the crisis in the industrial sector is far from over.



Source: CSO, and Monthly Economic Report of Ministry of Finance

Growth of Services in the Post 2008 Crisis

With a quarterly fluctuating growth, the services sector shows a gradual decline since the crisis in 2008. The extent of this could observe through various constituent services industries. Out of the total services in the sector, the financial services only show a consistent growth. All other services trends a decline in the rate of growth over the last eighteen quarters. For instance the community and social services indicate a sharp boosting up of growth due to the stimulus, but started declining from the second quarter of 2009-10 and reached negative in the third quarter of 2010-11. Even with the boosting up in the beginning of 2011, the performance of community and social services declining sharply ever since the crisis. Similarly, the fall of growth in the trade, hotel, transport and communication services were more rampant than other services. For instance, as an immediate response to the crisis in 2008 the growth of this industry immersed from more than 10 percent to 3.7 percent. As we discussed, the effect of stimulus made a slow push to the growth of the sector but continue to fall from the fourth quarter of 2009-10 with an exception of the first quarter of 2011-12. The overall decline in services sector reveals that more tightening knot of recession is on in India since 2010, which is graver than 2008. This makes us to conclude that the crisis in India is far from over and on the contrary sinking to a state of depression.



Source: CSO, and Monthly Economic Report of Ministry of Finance

The current policy of Reserve Bank of Indian and the pressure from finance ministry to reduce the repo and CRR implicitly and explicitly shows an attempt to pull the economy from slipping into depression. Nonetheless, the effect of monetary policy in bringing the growth back perhaps requires a time test, where the moving away of the government from fiscal spending really worries and in effect the current regime gives no scope and leaves scepticism that whether the current neoliberal government really interested to bring the economy back?